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OF COUNSEL
URBAN A. LESTER

November 15, 2002

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

RECORDATION NO. 24213 FILED

NOV 18 '02

11:00 AM

SURFACE TRANSPORTATION BOARD

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a), are two (2) copies of Security Agreement, dated November 14, 2002, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Debtor: The Durango & Silverton
Narrow Gauge Railroad Company
479 Main Avenue
Durango, CO 81301

Secured Party: Colorado Housing and
Finance Authority
1981 Blake Street
Denver, CO 80202

A description of the railroad equipment covered by the enclosed document is:

Durango & Silverton	Nomad Business Car	B-3
Durango & Silverton	Locomotive	42 (formerly 420)
Durango & Silverton	Locomotive	R-1
Durango & Silverton	Locomotive	493
Durango & Silverton	Locomotive	498

Mr. Vernon Williams
November 15, 2002
Page Two

A short summary of the document to appear in the index follows:

Security Agreement

Also enclosed is a check in the amount of \$30.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Alvord', with a stylized flourish at the end.

Robert W. Alvord

RWA/anr
Enclosures

RECORDATION NO. 24213 FILED

NOV 1 8 '02

11-00

CHFA 2/02
RDLP/RENEW
Loan No. 319228

REGION 9 ECONOMIC DEVELOPMENT BOARD SECURITY AGREEMENT

1. **DEBTOR:** The Durango & Silverton Narrow Gauge Railroad Company, a Colorado corporation
Address of Chief Executive Offices: 479 Main Avenue, Durango, CO 81301
2. **SECURED PARTY:** Colorado Housing and Finance Authority
Address: 1981 Blake Street, Denver, CO 80202
3. **Collateral.** Debtor hereby grants to Secured Party a security interest in the goods (including equipment and fixtures) and other collateral described in Exhibit A attached hereto and by this reference incorporated herein, and any and all proceeds and accessions thereto or therefrom, and any and all documents, with respect thereto or arising therefrom (hereafter referred to as "Collateral").
4. **Indebtedness.** The security interest hereby granted is to secure payment of the indebtedness evidenced by that certain promissory note, in the amount of **One Million and No/100 Dollars (\$1,000,000.00)** plus accrued interest thereon, executed by the Debtor to Region 9 Economic Development District of Southwest Colorado, Inc. and endorsed to the Secured Party (the "Note"), and any renewals, extensions or modifications thereof, and all other obligations, indebtedness, or liabilities of Debtor to Secured Party arising out of the Note, this Agreement, and any other agreement now or hereafter executed by Debtor with respect to the loan evidenced by the Note (collectively the "Loan Documents"), including without limitation all interest, charges, expenses, collection and attorney's fees chargeable against or owing by Debtor to Secured Party (herein collectively called the "Secured Obligations").
5. **Warranties and Representations.** Debtor warrants, covenants and represents to Secured Party as follows:
 - (a) Debtor is the owner of the Collateral and, except for the security interest granted hereby and as otherwise provided below, all Collateral is, or to the extent that any of the Collateral is to be acquired after the date hereof will be, free and clear from any lien, security interest, encumbrance or claim of any other person. Charles E. Bradshaw, Jr. and Bank of America, N.A., fka NationsBank, N. A. each have certain liens and security interests in the Collateral all of which liens and security interests are or will be, upon execution of the Note, subordinated to this Agreement, any financing statements filed pursuant to this Agreement, and to all other Loan Documents.
 - (b) Debtor has full power to enter into and perform the Secured Obligations under this Agreement, the Note and the Loan Documents; this Agreement, the Note and the Loan Documents constitute valid and binding obligations of the Debtor; and the Guaranty Agreement, if any, of even date herewith (the "Guaranty") is a valid and binding obligation of the guarantor. The Loan Documents and Guaranty are enforceable in accordance with their terms.
 - (c) The execution and delivery of this Agreement, the Note and the Loan Documents and consummation of all the transactions contemplated hereby and thereby, do not and will not conflict with, or be in contravention of, any law, order, rule or regulation applicable to the Debtor or any agreement or instrument to which the Debtor is a party or by which the Debtor or the Collateral are bound or affected, and will not result in the creation of any lien, charge or encumbrance of any nature upon the Collateral other than that contemplated hereby.
 - (d) Except as previously disclosed in writing to, and approved in writing by the Secured Party, there is no action, suit, legal proceeding or other proceeding pending or threatened (or, to the best knowledge of the Debtor, any basis therefor) against the Debtor, any general partner of Debtor, any guarantor or affecting the properties or assets of the Debtor, any general partner of Debtor or any guarantor in any court or before any arbitrator of any kind or before or by any governmental body. Neither the Debtor, any general partner of Debtor, nor any guarantor is in default with respect to any order of any court, arbitrator or governmental body, and neither the Debtor, any general partner of the Debtor, nor any guarantor is subject or a party to any order of any court or governmental body arising out of any action, suit or proceeding under any statute or other law respecting antitrust, monopoly, restraint of trade, unfair competition or similar matters. For the purposes of this paragraph, the term "governmental body" includes any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, and the term "order" includes any order, writ, injunction, decree, judgment, award, determination, direction or demand.
 - (e) The Debtor, any general partner of Debtor and any guarantor have filed all federal, state and local tax returns that are required to be filed and have paid all taxes shown on such returns and on all assessments to the extent that such taxes and assessments have become due. All federal and state income taxes and all other taxes and assessments of any nature with respect to which the Debtor, any general partner of Debtor and any guarantor are obligated have been paid or adequate accruals have been established therefor.

6. Perfection of Security Interest. Debtor shall execute and deliver to Secured Party, concurrently with Debtor's execution of this Agreement and at any time or times hereafter at the request of Secured Party (and pay the cost of filing or recording the same in all public offices deemed necessary by Secured Party), all financing statements, continuation financing statements, assignments, certificates of title, applications for vehicle titles, affidavits, reports, schedules of accounts, designations of inventory, letters of authority and all other documents that Secured Party may request, in form satisfactory to Secured Party, to perfect and maintain perfected Secured Party's security interests in the Collateral in order to fully consummate all of the transactions contemplated hereunder.

7. Sale and Disposition. Debtor shall not further encumber, transfer, abandon or dispose of any of the Collateral provided that Debtor may (i) in the ordinary course of its business, at its own expense, sell, lease, or furnish under contracts of service any of the Collateral which constitutes inventory and (ii) use and consume any raw materials, work in process or materials, the use and consumption of which is necessary in order to carry on Debtor's business.

8. Liens and Encumbrances. Except as otherwise provided in paragraph 5(a), Debtor shall keep the Collateral free from any lien, security interest or encumbrance except in favor of the Secured Party, and shall defend at its own expense said Collateral and the proceeds thereof against any and all claims and demands of all persons at any time claiming the same or any interest therein, and shall pay all taxes and assessments of any nature which may be levied or assessed against the Collateral. Debtor shall immediately notify Secured Party of any claim of interest as to the Collateral adverse to Secured Party's position or of any fact which would materially affect the value of said Collateral.

9. Location, Use and Maintenance of Collateral. Debtor shall keep the Collateral at **479 Main Avenue, Durango, CO 81301**, and shall not change the location of the Collateral without the prior written consent of Secured Party. Debtor shall not use said Collateral in violation of any applicable law, regulation or policy of insurance. Debtor warrants and represents that the Collateral is in good condition, and that Debtor will, at its own expense, keep the same in good condition and from time to time, forthwith, replace and repair all such parts of the Collateral as may be broken, worn out, or damaged without allowing any lien to be created upon the Collateral on account of such replacement or repairs.

10. Insurance and Taxes.

(a) Debtor shall pay promptly all taxes, levies, assessments, judgments and charges of any kind upon or relating to the Collateral, to Debtor's business, and to Debtor's ownership or use of any of its assets, income, or gross receipts, and shall provide Secured Party with evidence of payment within fifteen (15) days after the same are due.

(b) Debtor shall, at its own expense, keep and maintain all of the Collateral fully insured against loss or damage by fire, theft, explosion and other risks in such amounts, with such companies, under such policies and in such form as shall be satisfactory to Secured Party, which policies shall expressly provide that loss thereunder shall be payable to Secured Party as its interest may appear. Secured Party shall have a security interest in the proceeds of such insurance and may apply any such proceeds which may be received by it to the payment of Debtor's indebtedness, whether or not due, in such order of application as Secured Party may determine. Secured Party shall be named as an additional insured and losses in all cases shall be payable to the Secured Party and the Debtor as their interest may appear. All policies of insurance shall provide for at least thirty days' prior written notice of expiration, modification or cancellation to the Secured Party. The Debtor shall deliver all policies, including additional and renewal policies, or certificates of such insurance, to Secured Party and, in case of insurance policies about to expire, Debtor will deliver renewal policies or certificates of such renewal insurance not less than thirty (30) days prior to the respective date of expiration, at Secured Party's request.

11. Location of Debtor. Debtor's place of business, or, if Debtor has more than one place of business, its chief executive office, is at the address shown above. Debtor shall notify Secured Party in writing at least ten (10) days prior to any change of its place of business or chief executive office.

12. Inspection of Collateral and Records; Reports on Collateral. Secured Party shall have the right at any time to inspect and examine the Collateral, wherever located, and to inspect, audit, verify, check, make abstracts from and photocopies of books, ledgers, records, correspondence and all other papers or documents pertaining to said Collateral and Debtor's ownership thereof.

Debtor shall furnish to Secured Party, at such intervals as Secured Party may prescribe, Debtor's certificate (in such form as Secured Party may from time to time specify) showing (a) the aggregate face amount of any accounts included in the Collateral, aged in thirty (30) day increments, (b) the level of Debtor's inventory, shown in thirty (30) day increments, and (c) any returned goods, disputed invoices, or any other claim, defense or counterclaim asserted by Debtor's customers. In addition, Debtor shall notify Secured Party immediately upon Debtor's receipt of intent to file a federal tax lien with respect to the Collateral, or upon the filing of such tax lien.

13. Business Existence. Debtor shall do all things necessary to preserve and keep in full force and effect its existence, franchises, rights, privileges and qualification to do business in Colorado and all other states where its activities and ownership of assets are such that qualification to transact business is necessary under the laws of such states, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Debtor.

14. Financial Statements.

(a) Debtor shall furnish to Secured Party annual audited financial statements (balance sheet and income statement) of Debtor, within ninety (90) days after the close of the Debtor's fiscal year and copies of federal income tax returns of Debtor promptly upon their filing. Debtor shall also furnish quarterly profit and loss statements for Debtor and, if requested by Secured Party, a quarterly rent roll for the Premises within twenty (20) days after the end of each calendar quarter, together with such additional financial information as to Debtor, any general partners of Debtor, and any guarantor as the Secured Party may reasonably request.

(b) Debtor shall cause each guarantor, if any, to provide annually to the Secured Party personal financial statements within ninety (90) days of the close of their fiscal year and copies of federal income tax returns promptly upon their filing.

(c) All financial statements heretofore or hereinafter furnished to Secured Party have been or shall be prepared in accordance with generally accepted accounting principles, consistently applied; and shall fairly represent the financial conditions of the subjects thereof as of the respective dates of such financial statements. The financial statements of the Debtor and each guarantor heretofore delivered to the Secured Party are accurate and complete in all respects. No material adverse change has occurred in the conditions reflected in any financial statements heretofore provided to Secured Party since their respective dates. No additional material obligations have been entered into by the Debtor or any guarantor since the date of its respective financial statements other than as disclosed to the Secured Party in writing. Debtor has no contingent or disputed liabilities or unrealized or anticipated losses which in the aggregate are material, or any material commitments of an unusual or burdensome character.

15. Records. The Debtor agrees to keep adequate books and records of account in accordance with generally accepted accounting principles and will permit the Secured Party and its agents, accountants and attorneys, to inspect the Collateral and examine its books and records of account and to discuss its affairs, finances and accounts with the Debtor, at such reasonable times as Secured Party may request. Debtor shall promptly notify the Secured Party in writing of the occurrence of (i) any Event of Default or any event that would become an Event of Default upon notice or lapse of time or both, hereunder, (ii) any material or adverse change in the business, property, assets, operations or condition, financial or otherwise, of the Debtor, (iii) the pendency or threat of any material litigation or arbitration and of any tax deficiency or other proceeding before any governmental body or official affecting the Debtor, and (iv) any change in executive or key personnel or key management of Debtor.

16. Negative Covenants. Until payment and performance in full of all of the Secured Obligations hereunder, under the Note and the Loan Documents, Debtor shall not, without the prior written consent of the Secured Party:

(a) Create, incur, permit, assume or suffer to exist any indebtedness, except the obligations created or permitted hereby or indebtedness created or incurred in the ordinary course of business.

(b) Assume, guarantee, endorse or otherwise become liable in an accommodation capacity in connection with the obligations or stock of any person, firm or corporation, except endorsements of negotiable instruments for deposit or collection and similar transactions in the ordinary course of business.

(c) Merge or consolidate into or with any other entity, or permit any other entity to merge into the Debtor.

(d) Make loans or advances to its officers, shareholders, directors, partners or employees or to the officers, shareholders, directors, partners or employees of any subsidiary of the Debtor.

(e) Change its name or the nature or scope of its business.

(f) Not permit any Collateral to become a fixture (except Collateral which is already a fixture as of the date hereof) without prior written consent of Secured Party and without delivering or causing to be delivered to Secured Party all instruments and documents, including, without limitation, waivers and subordination agreements and documents by any landlords or mortgagees, requested by and satisfactory to Secured Party to preserve and protect the priority of the security interest granted herein against all persons.

(g) Not permit any proceeds of the Collateral received by Debtor to be commingled with other property of Debtor. Such proceeds shall be segregated, held by Debtor in trust for Secured Party and immediately delivered to Secured Party in the form received (duly endorsed if necessary) to be held by Secured Party as additional collateral or at Secured Party's option to be applied to payment of the Obligations.

(h) If Debtor is a corporation, not permit the transfer of fifty percent (50%) or more of the stock of the corporation, other than by devise or operation of law; if Debtor is a partnership, not permit the transfer of the interest of a general partner (other than between general partners who are such as of the date of execution of this Security Agreement, or by devise or operation of law) or the admission of additional general partners (a transfer of a limited partnership interest or the admission of additional limited partners shall not be deemed such a transfer); and if Debtor is a limited liability company, not permit the transfer of the interest of a member (other than between members who are such as of the date of execution of this Security Agreement, or by devise or operation of law) or the admission of additional members.

17. Default and Remedies. Any of the following events or conditions shall be an Event of Default hereunder:

(a) There shall occur an Event of Default under the terms of the Note or any other Loan Document;

(b) any warranty, representation or statement made or furnished to Secured Party by or on behalf of Debtor herein proves to have been false in any material respect when made;

(c) any of the Collateral is encumbered, assigned or sold, except with the prior written approval of Secured Party or as otherwise permitted herein, or is lost, stolen, damaged, destroyed or levied upon, or the value of the same is materially reduced;

(d) the financial condition of the Debtor becomes impaired, the Collateral becomes insufficient or unsafe, a substantial part of Debtor's property is in danger of loss, misuse, seizure or confiscation, or Secured Party otherwise in good faith deems itself insecure;

(e) The death, dissolution or termination of the Debtor or any guarantor, or the Debtor shall cease conducting business in the State of Colorado without the prior consent of the Security Party; or

(f) The transfer of any interest of any individual who is an owner of the Debtor or the admission of additional owners in the Debtor.

Upon any such Event of Default, Secured Party, without notice or demand, may declare all indebtedness of Debtor secured hereby immediately due and payable, and Secured Party shall have the rights granted to Secured Party hereunder or pursuant to any other agreement or guaranty now or hereafter arising, or pursuant to the Uniform Commercial Code (the "Code"), or any other body of law, either concurrently or successively, in such order as Secured Party may determine, including without limitation, the right to take immediate and exclusive possession of the Collateral, or any part thereof, and with or without judicial process, enter upon any place on which the Collateral or any part thereof may be situated and remove the same therefrom (provided, that if the Collateral is affixed to real estate, such removal shall be subject to the conditions stated in the Code); and the Secured Party shall be entitled to hold, maintain, preserve and prepare the Collateral for sale, until disposed of, or may propose to retain the Collateral subject to the Debtor's right of redemption, if any, in satisfaction of the Debtor's obligations, as provided in the Code. The Secured Party without removal may render the Collateral unusable and dispose of the Collateral on the Real Property. The Secured Party may require the Debtor to assemble the Collateral and make it available to the Secured Party for its possession at a place to be designated by the Secured Party which is reasonably convenient to both parties. The Secured Party will give the Debtor at least five (5) days' notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is made. The Secured Party may buy at any public sale, and if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, the Secured Party may buy at private sale. The net proceeds realized upon any such disposition, after deduction for the expenses of retaking, holding, preparing for sale, selling or the like and the reasonable attorneys' fees and legal expenses incurred by the Secured Party, shall be applied in satisfaction of the Indebtedness. The Secured Party will account to the Debtor for any surplus realized on such disposition and the Debtor shall remain liable for any deficiency;

Secured Party shall have the right, upon the occurrence of an Event of Default, to (a) notify the debtors under any accounts included in the Collateral that such accounts have been assigned to Secured Party, (b) direct such account debtors to make payments directly to Secured Party, (c) collect all such accounts in its or Debtor's name, and (d) take control of any cash or non-cash proceeds of such accounts and of any returned or repossessed goods. Debtor shall, if requested by Secured Party, notify such account debtors that their accounts have been assigned to Secured Party and that payments thereunder must be made directly to Secured Party.

Debtor hereby constitutes and appoints Secured Party and its agents its true and lawful attorney-in-fact, with full power to receive, open and dispose of all mail addressed to Debtor, to endorse Debtor's name on all checks, notes, drafts, money orders or other forms of payment which may come into the possession of Secured Party, to sign and endorse Debtor's name on any invoice, assignment, claim, warrant, request for payment, freight bill, bill of lading, warehouse receipt, materialman's lien or a waiver therefor, or any other instrument or document which would facilitate the payment of any of the indebtedness secured hereby or the perfection of Secured Party's rights in the Collateral, and to execute any contracts, documents and to do and perform all acts necessary and proper or convenient to accomplish the retention, assignment, sale, or other disposition of the Collateral under the provisions of this paragraph. The power granted herein, being coupled with an interest, is irrevocable until all indebtedness of Debtor to Secured Party has been fully paid and satisfied. Debtor hereby waives notice of presentment, protest, and nonpayment of any such instrument so endorsed.

18. Attorneys' Fees. In the event of a breach by Debtor of any provision contained herein or in the Note secured hereby or if an Event of Default occurs and is continuing hereunder, Debtor will pay to Secured Party, in addition to all indebtedness, reasonable attorneys' fees incurred in obtaining or enforcing payment of said indebtedness, or in the prosecution against Debtor or in the defense by Secured Party of any action or proceeding concerning any matter arising out of or connected with this Agreement or said indebtedness.

19. Protection of Collateral - Nonliability of Secured Party. In the event Debtor fails to discharge any lien, encumbrance or claim against the Collateral or fails and neglects to take any other actions required by this Agreement, then Secured Party at its option, without being required to do so, may take any action or advance any sum necessary for the protection or preservation of the Collateral or its security interest therein and the amount so paid or incurred by Secured Party with interest thereon at the rate stipulated in the Note shall become on demand due and payable by Debtor to Secured Party and shall be secured by the Collateral. Secured Party shall have no duty to protect, insure, or realize upon said Collateral. Debtor hereby releases Secured Party from any liability for any act of omission or commission relating to the Collateral or this Agreement except gross negligence of Secured Party.

20. Waiver. Failure or delay by Secured Party in exercising or enforcing any right, privilege, option or remedy hereunder shall not operate as a waiver thereof, and the waiver by Secured Party of any Event of Default by Debtor shall not be deemed a waiver of any other subsequent or prior default by Debtor.

21. Notices. Any notice which any party hereto may desire or may be required to give to any other party under this Agreement or any other Loan Document shall be in writing, and the mailing thereof by first class mail, postage prepaid to the following addresses, or to such other place as any party hereto may by notice in writing designate, shall constitute service of notice hereunder two (2) days after mailing:

(a) if to Secured Party, at the place where payments are then required to be made upon the Note, to the attention of the Executive Director, with a copy to the Director of Legal Operations;

(b) if to Debtor, at the address shown above in the initial paragraph hereof.

22. Interpretation. This Agreement shall be deemed to be made, executed and performed in the State of Colorado, and the validity, construction and enforcement of this Agreement shall be governed by the laws of said State. Time is of the essence hereof. All terms not otherwise defined shall have the meanings assigned to them by the Uniform Commercial Code. Invalidity of any provision of this Agreement shall not affect the validity of any other provision.

23. Parties. This Agreement shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.

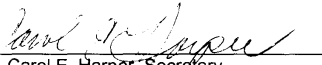
DATED AND SIGNED November 14, 2002

DEBTOR:

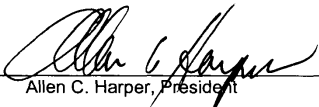
The Durango & Silverton Narrow Gauge Railroad
Company, a Colorado corporation

ATTEST:

By:


Carol E. Harper, Secretary

By:


Allen C. Harper, President

SECURED PARTY:

COLORADO HOUSING AND FINANCE AUTHORITY

By: Nedra San Filippo
Nedra San Filippo, Deputy Executive
Director

STATE OF Florida)
County of Dade) ss.

The foregoing instrument was acknowledged before me this 13th day of November, 2002 by
Allen C. Harper as President and Carol E. Harper as Secretary of The Durango & Silverton Narrow
Gauge Railroad Company, a Colorado corporation.

My commission expires: February 6, 2006

(SEAL)



Alina Maruri
Notary Public

STATE OF COLORADO)
CITY AND COUNTY OF DENVER) ss.

The foregoing instrument was acknowledged before me this 14th day of November, 2002, by
Nedra San Filippo as Deputy of Colorado Housing and Finance Authority.
Executive Director

My commission expires: June 24, 2006

(SEAL)



Karen Gutjahr
Notary Public

EXHIBIT A

(Attached to and forming a part of the Security Agreement dated **November 14, 2002** between **The Durango & Silverton Narrow Gauge Railroad Company, a Colorado corporation** and Colorado Housing and Finance Authority.)

The goods and rolling stock listed below, now owned or hereafter acquired, and any and all proceeds therefrom and accessions thereto or therefore, and any and all documents with respect thereto or arising therefrom:

DESCRIPTION		NUMBER
Durango & Silverton	Nomad Business Car	B-3
Durango & Silverton	Locomotive	42 (formerly 420)
Durango & Silverton	Locomotive	R-1
Durango & Silverton	Locomotive	493
Durango & Silverton	Locomotive	498